

Understanding the Audit Process

AASBO Webinar
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DISCLAIMER

This information was presented during an AASBO webinar on October 21, 2020.

This presentation represents the audit position of the Department of Examiners of Public Accounts as of that date.

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Objectives

- Define an Audit
- Provide Understanding of Audit Process
- Explain Components of Audit Report
- Describe Single Audit Requirements



ALABAMA DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS

Authority

Code of Alabama 1975,
Sections 41-5A-1 through
41-5A-23 governs the
Department's activities

Section 41-5A-12 states
that the department will
perform periodic
examinations and audits of
state and county offices,
departments, boards, etc.

What is an Audit?

The term audit usually refers to a financial statement audit. A financial statement audit is an objective examination and evaluation of the financial statements of an entity *performed by someone independent* of the entity to ensure that the financial records are a fair and accurate representation of the entity's financial activities.

Why is an Audit Needed?

- ***Code of Alabama 1975***, Section 16-13A-7 – states that yearly business and financial transaction of a local board of education shall be audited as early as possible after the end of the fiscal year.
- Provides Transparency to Taxpayers
- Financing/Bond Requirements
- Federal Funding

What Auditors Do



- Form opinion as to whether the financial statements represent fairly, as of a given date, the financial position of the entity.
- Conduct audit in accordance generally accepted auditing standards and government auditing standards.
- Perform procedures, based upon auditor's judgment, to obtain audit evidence about the amounts and disclosures in the financial statements.
- Assess risk of **material** misstatement of financial statements by considering relevant entity internal controls
- Ensure compliance with various state and local legal requirements

What Auditors Do Not Do

- Express opinion on *effectiveness* of entity's internal controls
- Test adequacy of all internal controls
- Test every transaction at entity
- Comment on the quality of management or appropriateness of activities/decisions
- Ensure that fraud is detected – always looking for potential fraud, but no assurance provided that will be detected

Types of Audits

Compliance Examination –examination performed to determine if the entity has complied with applicable laws and regulations.

Financial Audit – audits in which an opinion is issued on the financial statements. Also included in this audit are all aspects of a compliance examination.

Federal Single Audit – audit in which an opinion is issued on the Schedule of Expenditures of Federal Awards. This audit also includes all aspects of both financial audits and compliance examination.

Purpose of an Audit

The main purpose of a financial audit is to form an opinion on the financial information presented by the entity as of a given date. While auditors look for potential fraud, detecting fraud is not the primary purpose of the audit and it is not possible to be certain that all fraud will be identified.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Preparing for Audit



Prepare financial statements for audit

- Capital assets

- Salary accruals

Prepare notes, SEFA and any other supplementary information

Provide auditor read-only accounting software access

Provide list of all Board members/Superintendent/CSFOs in office during audit period

Disclose in entrance conference any concerns regarding specific schools, areas or grants.

Preparing for Audit



Common records needed –

- New long-term debt issued (additional information on old debt may be needed due to implementation of GASB 88)

- Pension Liability Actuarial Evaluation (GASB 68)

- OPEB Liability Actuarial Evaluation (GASB 75)

- Local School Information Forms

 - auditor will randomly pick specific schools for site visits*

- Bank reconciliations

- Supporting documentation for Receivables and Payables

All audits start the same...



Manager notifies entity of upcoming audit



Examiner arrives on site.



Engagement letter – this is a letter stating the audit period and the type of audit to be performed. Additionally, it states the items management will be responsible for providing.

Audit Field Work

The examiners use the information gathered to produce working papers that supports amounts reflected on the financial statements and conclusions reached.

Examiners are on-site at auditee or working remotely from their base throughout audit fieldwork.

Examiner working papers are subject to the Alabama Grand Jury Secrecy Act, *Code of Alabama 1975*, Section 41-5A-19.

Concluding the Audit

Once the audit fieldwork is finished

- Manager reviews all working papers
- All those in charge of governance are invited to an exit conference
- Results of the audit are discussed
- Exit conference meeting is not subject to the open meetings law (meeting with a State official/representative *Code § 36-25A-2(6)b*)

Findings and Exit Comments

Findings - Findings are formal items which will be part of the printed report. These findings will be either internal control findings, federal compliance or legal compliance findings. Management is given the opportunity to respond to the findings in their Corrective Action Plan, which is published as part of the Audit Report.

Exit Comments - Exit Comments are informal items which will **NOT** be part of the printed report. These items can be either internal control or legal compliance issues.

Report on the
**County
Board of Education**
County, Alabama
October 1, 2018 through September 30, 2019

Filed: July 24, 2020



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Examiners of Public Accounts**

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Rachel Laurie Riddle, Chief Examiner

Audit Report

Audit Report may include the following:

- Summary
- Independent Auditor's Report
- MD&A
- Basic Financial Statements
- Required Supplementary Information
- Supplementary Information
- Additional Information

Summary

Contains a summary of items pertaining to federal, state and local legal compliance, Board operations, and other matters.

Also shows who was invited and who attended the exit conference meeting.



Department of
Examiners of Public Accounts

SUMMARY

County Board of Education
October 1, 2018 through September 30, 2019

The County Board of Education (the "Board") is governed by a five-member body elected by the citizens of County. The members and administrative personnel in charge of governance of the Board are listed in Exhibit 16. The Board is the governmental agency that provides general administration and supervision for County public schools, preschool through high school, with the exception of schools administered by cities having a city board of education.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Board complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the

- Addressed to Responsible Parties
- Defines Management and Auditor's Responsibilities
- States Type of Opinion Issued on Financial Statements
- Lists Other Matters and Other Reporting Requirements, as well as any other significant situations, if necessary.

Auditor's Responsibility

Types of Audit Opinions

Unmodified – Financial statements present fairly the financial position and changes in position according to GAAP.

Qualified – Financial statements contain a material departure from GAAP

Adverse – Financial statement are not presented fairly in conformity with GAAP

Disclaimer – Auditor is unable to determine if the financial statements are presented fairly.

Management's Discussion and Analysis (MD&A)

- Prepared by Management
- Provides brief overview of the financial statements of the Board and current economic factors.
- If not presented, we will include a paragraph in IAR saying not presented, but it does not change the audit opinion.

Basic Financial Statements

Financial Statements

- Statement of Net Position
- Statement of Activities
- Balance Sheet
- Reconciliation of Balance Sheet to Statement of Net Position
- Statement of Revenues, Expenditures and Changes in Fund Balances
- Reconciliation of the State of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
- Fiduciary Statements (if applicable)

Notes to the Financial Statements

Requires Supplementary Information (RSI)

- Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual
- Pension Liabilities Schedules
- OPEB Liabilities Schedules
- Notes to OPEB

Supplementary Information (Federal)

- Schedule of Expenditures of Federal Awards (SEFA)
- Notes to the SEFA

Additional Information

- Board Members and Administrative Personnel
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
- Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance (only if Single Audit)
- Schedule of Findings and Questioned Costs (only if Single Audit)
- Summary Schedule of Prior Audit Findings (if applicable)
- Schedule of Charges (if applicable)
- Auditee Response/Corrective Action Plan (if applicable)

Quality Control Review

- Reports go through multiple levels of a review process within the department.
- Issues may go from Finding to Exit Comment based upon the documentation in the working papers.
- If an issue were to go from Exit Comment to Finding, a second exit conference with the Board members would be held prior to the release of the audit.

Report Distribution

- Reports are emailed to all members of the Board on Wednesday before being made available to public on Friday.
- If no email, reports are mailed.
- Reports are posted to our website each Friday after 9:00 a.m.

Single Audit

What is a Single Audit? Audit required in any fiscal year that an entity expends \$750,000 or more in federal funds. Consolidated requirements for single audits codified in Title 2 of the Code of Federal Regulations (CFR), part 200.

What is the purpose of a Single Audit? To ensure a recipient of federal funds is in compliance with the federal program's requirements for how the money can be used.

Single Audit – History

Prior to 1984, each federal grantmaking agency was required to carry out its own audit. The *Single Audit Act of 1984* standardized audits for states, local and tribal governments.

On December 26, 2013, the OMB issued the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (*Uniform Guidance*), which standardized compliance and audit requirements for government entities, non-profit organizations and institutions of higher education.

Single Audit – SEFA

Schedule of
Expenditures
of Federal
Awards (SEFA)
– auditee
prepares
prior to start
of audit.
Should list all
federal grants
expended
during fiscal
year by
CFDA #.

Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2019

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Identifying Number | Total Federal Expenditures |
|---|---------------------------|---|----------------------------------|
| <u>U. S. Department of Agriculture</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | N/A | 976,131.51 |
| National School Lunch Program: | | | |
| Cash Assistance | 10.555 | N/A | 3,417,796.26 |
| Non-Cash Assistance (Commodities) | 10.555 | N/A | 615,533.42 |
| Sub-Total National School Lunch Program | | | 4,033,331.68 |
| Summer Food Service Program for Children | 10.559 | N/A | 38,319.94 |
| Sub-Total Child Nutrition Cluster | | | 5,047,783.13 |
| State Administrative Expenses for Child Nutrition | 10.560 | N/A | 30,789.90 |
| Fresh Fruit and Vegetable Program | 10.582 | N/A | 110,258.02 |
| Total U. S. Department of Agriculture | | | 5,188,831.05 |
| <u>U. S. Department of Education</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Special Education Cluster: | | | |
| Special Education Grants to States | 84.027 | N/A | 4,171,019.20 |
| Special Education Preschool Grants to States | 84.173 | N/A | 84,796.37 |
| Sub-Total Special Education Cluster (M) | | | 4,255,815.57 |
| Title I Grants to Local Educational Agencies (M) | 84.010 | N/A | 1,954,967.15 |
| Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | N/A | 76,527.34 |
| Supporting Effective Instruction State Grant | 84.367 | N/A | 464,504.32 |
| English Language Acquisition State Grants | 84.365 | N/A | 92,815.89 |
| Student Support and Academic Enrichment Program | 84.424 | N/A | 87,239.50 |
| Education for Homeless Children and Youth | 84.196 | N/A | 20,300.45 |
| Career and Technical Education - Basic Grants to States | 84.048 | N/A | 234,025.77 |
| <u>Passed Through Alabama Department of Rehabilitation Services</u> | | | |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 84.126 | N/A | 119,708.29 |
| <u>Passed Through Alabama Department of Early Childhood Education</u> | | | |
| Preschool Development Grant | 84.419 | N/A | 120,100.00 |
| Total U. S. Department of Education | | | 7,426,004.28 |
| <u>Social Security Administration</u> | | | |
| <u>Passed Through Alabama Department of Education</u> | | | |
| Social Security - Disability Insurance | 96.001 | N/A | 5,118.00 |
| <u>U. S. Department of Health and Human Services</u> | | | |
| <u>Passed through Alabama Department of Mental Health</u> | | | |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | N/A | 3,538.54 |
| <u>Other Federal Assistance</u> | | | |
| <u>Direct Program</u> | | | |
| ROTC - Army | N/A | N/A | 68,923.89 |
| ROTC - Navy | N/A | N/A | 75,895.06 |
| Total U.S. Department of Defense | | | 144,818.95 |
| Total Expenditures of Federal Awards | | | 12,768,310.82 |

(M) = Major Program
N/A = Not Applicable or Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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Single Audit –

Major Programs

Low or High-Risk Auditee - auditor determines which auditee is based on specific criteria

Major Programs

Type A (>\$750,000)

Type B (<\$750,000)

Percentage of Coverage (20% or 40%)

Audit performs Program Risk Assessment to determine which programs will be major for the audit.

Single Audit – Compliance Requirements

- Directives provided by the federal agencies that indicate the laws and regulations applicable to the specific federal assistance received
- Vary depending on the grant
- 12 basic categories
- Federal government has determined applicable categories for each grant

Single Audit – Compliance Requirements

- Activities Allowed/Unallowed
- Allowable Costs and Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Performance
- **Procurement**, Suspension, Debarment
- Program Income
- **Reporting**
- Subrecipient Monitoring
- Special Tests and Provisions

Single Audit —

Uniform Guidance Changes

Written policies required to document certain procedures

- cash management

- conflict of interest

- procurement

Procurement Requirements*

- micro purchases

- small purchases

- sealed bids

- competitive proposals

- sole source

*thresholds for these change, always check current guidance



Single Audit – Federal Audit Clearinghouse (FAC)

- <https://facweb.census.gov/>
- Operates on behalf of OMB
- Distributes single audit reporting packages to federal agencies
- Maintains public database of completed auditees
- Assists auditors and auditees in complying with Single Audit Requirements

Single Audit –

Data Collection Form (DCF)

- DCF must be submitted to FAC after audit report is released
- Auditee designee must be registered on website to access and approve form

| | Completion Status | Completion Date/Time |
|--|---|--------------------------|
| STEP 1. Enter and Finalize Form SF-SAC |  | 9/17/2020 11:17:11 AM |
| STEP 2. Upload and Finalize Audit Report |  | 9/17/2020 11:23:00 AM |
| STEP 3a. Auditee Certification Why is button grayed out? |  | |
| STEP 3b. Auditor Certification Why is button grayed out? |  | |
| STEP 4. Submit to FAC for Processing |  | |



- Remote Access to Accounting Software
- Internal Control Procedures/Questions
- Single Audit – CARES/ESSER/GEER

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Questions